

University of Central Florida (UCF) ACG3173 Accounting for Decision-Makers Exam 2 Practice (Sample)

Study Guide



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Questions

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1. Which is NOT a focus of performance evaluation in responsibility accounting?
 - A. Return on investment
 - B. Budget variance analysis
 - C. Employee attendance records
 - D. Responsibility center's performance
2. How does LIFO inventory valuation typically affect net income?
 - A. It increases net income
 - B. It decreases net income
 - C. It has no effect on net income
 - D. It simplifies inventory tracking
3. When a company classifies its assets as "non-current," what does that imply?
 - A. They are immediately liquidated for cash
 - B. They will provide economic benefits for multiple years
 - C. They are only valuable in the current fiscal year
 - D. They are subject to immediate depreciation
4. Which process refers to spreading the cost of a tangible asset over its useful life?
 - A. Amortization
 - B. Depreciation
 - C. Depletion
 - D. Cost Allocation
5. What is the main purpose of recognizing unearned revenue?
 - A. To monitor cash flow
 - B. To defer tax liabilities
 - C. To match revenue recognition with service delivery
 - D. To ensure accurate financial reporting

6. What is the process called when an intangible asset is spread over its useful life?
- A. Depreciation
 - B. Amortization
 - C. Depletion
 - D. Cost Recovery
7. What is the significance of withholding in the context of federal income tax?
- A. It reduces taxable income
 - B. It ensures tax revenue is collected evenly throughout the year
 - C. It allows for larger refunds
 - D. It is not an obligation
8. What constitutes Total Payroll Liability on the exam?
- A. FICA + Medical
 - B. FICA + Medical + Withholdings + Wages Payable
 - C. FICA + Withholdings
 - D. Medical + Withholdings + Wages Payable
9. How does a magazine subscription affect financial statements at inception?
- A. Revenue is recognized immediately
 - B. Cash is received, and liability is recognized
 - C. Expenses are recorded immediately
 - D. Long-term debt is increased
10. What is the estimated reporting start date for everyone to comply with the new leasing rules?
- A. December 15, 2018
 - B. December 15, 2019
 - C. January 1, 2020
 - D. July 1, 2020

Answers

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1. C
2. B
3. B
4. B
5. C
6. B
7. B
8. B
9. B
10. B

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Explanations

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1. Which is NOT a focus of performance evaluation in responsibility accounting?

- A. Return on investment
- B. Budget variance analysis
- C. Employee attendance records
- D. Responsibility center's performance

Performance evaluation in responsibility accounting primarily focuses on measuring the effectiveness and efficiency of a manager's performance within their designated responsibility center. Responsibility accounting is concerned with tracking the financial outcomes that directly relate to the decisions made by those in charge of specific segments of the organization. Return on investment is a crucial metric used to evaluate how well the resources invested in a responsibility center are generating profit relative to those investments. This provides insight into financial performance and assists in decision-making processes regarding resource allocation. Budget variance analysis is also a key component, as it involves comparing actual performance against budgeted figures. Understanding these variances helps assess how well a manager is controlling costs and meeting financial targets, which is vital for evaluating accountability. The performance of a responsibility center is indeed a central focus, as it involves assessing how well a specific branch or unit of the organization is performing based on its outlined objectives and responsibilities. Employee attendance records, while relevant to an organization's overall operational efficiency, do not directly tie into the financial performance or decision-making scope in responsibility accounting. They may contribute to broader human resource metrics but are not specifically used as a measure of economic performance in the context of responsibility accounting. Thus, this aspect does not align with the primary goals of evaluating responsibility centers, making it the

2. How does LIFO inventory valuation typically affect net income?

- A. It increases net income
- B. It decreases net income
- C. It has no effect on net income
- D. It simplifies inventory tracking

Using the Last In, First Out (LIFO) inventory valuation method generally leads to a decrease in net income during periods of rising prices. This occurs because LIFO assumes that the most recently purchased inventory items are sold first. When costs are rising, the newer inventory—which is more expensive—is considered sold before the older inventory, which is cheaper. As a result, the cost of goods sold (COGS) increases when using LIFO in an inflationary environment. Since COGS is subtracted from revenues to calculate net income, a higher COGS will lead to a lower net income. This effect is particularly pronounced in industries where inventory prices fluctuate significantly. In contrast, other inventory methods such as First In, First Out (FIFO) would yield a lower COGS and hence a higher net income under similar conditions because it sells the older, cheaper inventory first. Thus, LIFO is recognized for its impact on reducing net income in times of rising costs.

3. When a company classifies its assets as "non-current," what does that imply?

- A. They are immediately liquidated for cash
- B. They will provide economic benefits for multiple years
- C. They are only valuable in the current fiscal year
- D. They are subject to immediate depreciation

Classifying assets as "non-current" indicates that these assets are expected to provide economic benefits over multiple years, generally exceeding a single year. Non-current assets include long-term investments, property, plant, equipment, and intangible assets, such as patents or trademarks. These assets are integral to a company's operations and strategic planning, as they often serve as the foundation for generating revenue over an extended period. The distinction between current and non-current assets is essential in financial reporting, as it helps investors and stakeholders understand the company's resource allocation and potential for future growth. Non-current assets are not intended to be converted into cash immediately, which contrasts with current assets that are expected to be liquidated or utilized within a year. Other options misinterpret the nature of non-current assets. Liquidation of non-current assets for cash is not the intended purpose, as they are typically retained for operational use. Additionally, non-current assets provide value beyond just the current fiscal year, refuting the idea that their usefulness is confined to a single year. Finally, while non-current assets can be depreciated, this process is not immediate, as it takes place systematically over their useful life instead of at once.

4. Which process refers to spreading the cost of a tangible asset over its useful life?

- A. Amortization
- B. Depreciation
- C. Depletion
- D. Cost Allocation

The correct term for spreading the cost of a tangible asset over its useful life is depreciation. This accounting process allocates the initial cost of the asset systematically over the years it is expected to provide economic benefits. Depreciation recognizes that the asset will lose value over time due to factors such as wear and tear, obsolescence, or market value fluctuations. For tangible assets, such as machinery, buildings, or vehicles, depreciation allows businesses to match the cost of the asset with the revenue it generates during its useful life, providing a more accurate reflection of financial performance on the income statement. Different methods of depreciation, such as straight-line or declining balance, dictate how much expense is recorded in each accounting period, ensuring that financial statements present a fair view of the company's assets and expenses. In contrast, amortization specifically pertains to the gradual writing off of intangible assets, such as patents or copyrights. Depletion is used for natural resources, indicating the reduction of a resource's quantity due to extraction. Cost allocation is a broader term that can refer to spreading costs across various departments or projects, but it does not specifically denote the process for tangible assets like depreciation does.

5. What is the main purpose of recognizing unearned revenue?

- A. To monitor cash flow
- B. To defer tax liabilities
- C. To match revenue recognition with service delivery
- D. To ensure accurate financial reporting

Recognizing unearned revenue serves the main purpose of matching revenue recognition with service delivery. In accounting, unearned revenue represents money received by a business for services not yet performed or goods not yet delivered. According to the revenue recognition principle, revenue should only be recognized when it is earned, meaning the service has been provided or the goods have been delivered. By recognizing unearned revenue, a company is effectively acknowledging that it has an obligation to provide a service or product in the future. This ensures that financial statements reflect an accurate picture of the company's obligations and performance over the appropriate time period. This practice supports the overall concept of accrual accounting, which focuses on recording revenues and expenses when they are incurred, rather than when cash is exchanged. As such, it contributes to ensuring that financial reports accurately represent the timing of revenue in relation to when the related services are actually rendered. The other options, while they touch upon aspects of financial management or reporting, do not capture the fundamental reason for recognizing unearned revenue as correctly as matching revenue with service delivery does.

6. What is the process called when an intangible asset is spread over its useful life?

- A. Depreciation
- B. Amortization
- C. Depletion
- D. Cost Recovery

The correct process for spreading the cost of an intangible asset over its useful life is known as amortization. This term applies specifically to intangible assets like patents, copyrights, trademarks, and goodwill, which do not have physical substance but still have value and a defined useful life. Amortization systematically allocates the cost of these assets over the period they are expected to provide economic benefits. This allocation helps businesses match the expense of an intangible asset with the revenue it generates, reflecting a more accurate picture of financial performance over time. In contrast, depreciation applies to tangible assets such as machinery and buildings, while depletion is a method used specifically for natural resources. Cost recovery refers more broadly to recovering the entire cost of a business investment and is not limited to a specific method applicable to intangible assets. Hence, amortization is the appropriate term for this process, focused solely on intangible assets.

7. What is the significance of withholding in the context of federal income tax?

- A. It reduces taxable income
- B. It ensures tax revenue is collected evenly throughout the year
- C. It allows for larger refunds
- D. It is not an obligation

Withholding refers to the practice of deducting a portion of an employee's pay to meet tax obligations before the employee receives their salary. This system is significant because it helps ensure that tax revenue is collected in a steady manner throughout the year, rather than in a large lump sum at tax filing time. By withholding a portion of each paycheck, the government can effectively manage cash flow and maintain a consistent influx of revenue, which is essential for funding various public services and programs. This approach also alleviates the burden on taxpayers, as it helps prevent large tax payments from overwhelming individuals who might struggle to pay a substantial amount at once. Instead, they are effectively spreading their tax payments out over the course of the year, which can make personal budgeting easier. The other options do not accurately reflect the primary purpose of withholding. It does not directly reduce taxable income, as the income is still subject to tax; it can contribute to a larger tax refund, but that is more of a secondary effect rather than a primary function; and withholding is indeed an obligation for both employers and employees, contrary to any suggestion that it is not.

8. What constitutes Total Payroll Liability on the exam?

- A. FICA + Medical
- B. FICA + Medical + Withholdings + Wages Payable
- C. FICA + Withholdings
- D. Medical + Withholdings + Wages Payable

Total Payroll Liability refers to the total amount a company owes to its employees and various taxation authorities for payroll expenses. This includes not only the wages that the company has committed to pay its employees but also the associated payroll taxes and any withholdings that the company is responsible for. The correct answer encompasses several components critical to calculating Total Payroll Liability: 1. **FICA**: This refers to the Federal Insurance Contributions Act taxes, which comprise Social Security and Medicare taxes that employers withhold from employees' paychecks, as well as the employer's matching contribution. 2. **Medical**: This typically relates to the withholding for health insurance or medical benefits that are deducted from employee pay. 3. **Withholdings**: This includes amounts deducted from an employee's paychecks for various reasons, such as income tax, retirement contributions, and other benefits. 4. **Wages Payable**: This represents the gross wages that the company owes to its employees for the work performed, which have not yet been paid out. By adding these components together—FICA, Medical, Withholdings, and Wages Payable—you obtain the Total Payroll Liability, which accurately reflects the total financial obligation a company has related to payroll for a given period.

9. How does a magazine subscription affect financial statements at inception?

- A. Revenue is recognized immediately
- B. Cash is received, and liability is recognized
- C. Expenses are recorded immediately
- D. Long-term debt is increased

When a magazine subscription is sold, it typically involves the receipt of cash from the subscriber for future issues. This transaction has specific implications for financial statements at the time of inception. Upon receiving cash, the company records this as an increase in cash on the balance sheet, signaling that they have received payment upfront. However, since the service (the magazine delivery) will be provided over time, the subscription also creates a liability. This liability represents an obligation to deliver magazines to the subscriber in the future, reflecting the company's commitment to provide services that have already been paid for. This recognition of cash and the corresponding liability aligns with the revenue recognition principle, where revenue is recognized when it is earned, not when cash is received. Therefore, at the inception of the subscription, the effect on financial statements involves recognizing cash while also acknowledging the liability until the service is fulfilled. This ongoing obligation will gradually be recognized as revenue in the income statement as each magazine issue is delivered—demonstrating a match between revenue and the associated expenses over time.

10. What is the estimated reporting start date for everyone to comply with the new leasing rules?

- A. December 15, 2018
- B. December 15, 2019
- C. January 1, 2020
- D. July 1, 2020

The estimated reporting start date for compliance with the new leasing rules set forth by the Financial Accounting Standards Board (FASB) under ASC 842 was indeed December 15, 2019. This effective date signifies when companies were required to begin applying the new standards, which bring significant changes to the accounting for leases. Under the new rules, lessees are required to recognize lease assets and liabilities on their balance sheets for most leases, which marks a departure from previous standards that allowed for operating leases to remain off-balance-sheet. The timing of reporting changes is crucial for businesses as it gives them a clear timeline to prepare for transitioning their accounting practices and systems to comply with these new requirements. The shift in compliance reflects a broader move toward transparency in financial reporting, especially concerning long-term commitments that affect a company's financial position.